

UBLY COMMUNITY SCHOOLS
UBLY, MICHIGAN
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

July 26, 2004

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Ubly Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ubly Community Schools as of and for the year ended June 30, 2004, which collectively comprise the Ubly Community Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Ubly Community Schools management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Ubly Community Schools as of June 30, 2004, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2004, on our consideration of the Ubly Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1, the School District has implemented a new financial reporting model, as required by the provisions of the *GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages II through VIII and 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ubly Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Uby Community Schools, a K-12 school District, is in its first year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Uby Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

District Wide Financial Statements: (Continued)

These two statements report the Uby Community Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreased in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal year ended June 30, 2004:

NET ASSETS SUMMARY

	<u>2004</u>
<u>ASSETS</u>	
Current Assets	\$4,129,122
Non-Current Assets	<u>1,578,394</u>
<u>TOTAL ASSETS</u>	<u>\$5,707,516</u>
<u>LIABILITIES</u>	
Current Liabilities	\$975,678
Long-Term Liabilities	<u>968,040</u>
Total Liabilities	\$1,943,718
<u>NET ASSETS</u>	
Invested in Capital Assets - Net of Related Debt	200,354
Restricted - Debt Service	245,631
Unrestricted	<u>3,317,813</u>
Total Net Assets	<u>\$3,763,798</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$5,707,516</u>

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

RESULTS OF OPERATIONS:

For the fiscal year ended June 30, 2004, the District wide results of operations were:

	<u>2004</u>
<u>REVENUES</u>	
<u>General Revenues:</u>	
Property Taxes Levied for General Operations	\$362,652
Property Taxes Levied for Debt Service	378,566
State of Michigan Unrestricted Foundation Aid	5,518,086
Other General Revenues	<u>60,844</u>
Total General Revenues	\$6,320,148
<u>Operating Grants:</u>	
Federal	338,438
State of Michigan	278,251
Other Grants	<u>158,579</u>
Total Operating Grants	\$775,268
<u>Charges for Services:</u>	
Food Service	138,776
Athletics	88,744
Other Charges for Services	<u>22,038</u>
Total Charges for Services	<u>\$249,558</u>
Total Revenues	\$7,344,974
<u>EXPENSES</u>	
Instruction & Instructional Support	4,275,302
Support Services	1,900,206
Food Service	326,586
Athletics	263,518
Interest on Long-Term Debt	102,385
Depreciation	<u>34,098</u>
Total Expenses	<u>\$6,902,095</u>
<u>INCREASE IN NET ASSETS</u>	\$442,879
<u>BEGINNING NET ASSETS</u>	<u>3,320,919</u>
<u>ENDING NET ASSETS</u>	<u><u>\$3,763,798</u></u>

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2004, the District's Total Net Assets increased by \$442,879 to a total of \$3,763,798. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$340,378 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The districts Unrestricted Net Assets increased by \$110,400 during the year and the restricted portion of the net assets decreased by \$7,899. The restricted Net Assets consist of the Investment in Capital Assets-net of related debt and the restricted debt retirement funds that may only be used to pay bonded debt. The unrestricted net assets may be used to fund the educational services provided to students. The significant changes in unrestricted net assets was the general fund revenues exceeding expenses.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows , and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund increased by \$96,418 during the year with the increase primarily in cash. Revenues for the year decreased by \$31,002 primarily from reductions in state aid. Expenditures and other financing uses increased by \$ 79,167, primarily from increases in salaries and fringe benefits. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 80 percent of current year's fall count and 20 percent of prior year's winter count
- c. The District's non-homestead tax levy.

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Uby Community Schools foundation allowance was \$6,700 per student for the 2003-2004 school year, the same as the prior year. The foundation allowance was decreased by \$74 per student from \$6,700 to \$6,626 as the result of an executive order by the governor.

3. Student Enrollment:

The District's student enrollment for the fall count of 2003-2004 was 902 students. A decrease of 7 students from the prior year.

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 17.7381 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2003-2004 fiscal year was \$362,652. An increase of \$18,205 from the prior year.

Debt Retirement Fund

The districts debt retirement fund balance decreased by \$7,899. The fund balance is restricted to use for payments on bonded debt. The funds had expenditures of \$469,168 in paying the required interest and principal payments of the school's bonded debt. The majority of the funds revenue is derived from tax collections. An analysis of them is as follows:

1. Debt Fund Property and Industrial Facility In Lieu of Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead. In addition, the District collects IFT (Industrial Facilities Taxes) In Lieu of Taxes that are essentially taxed at 50 percent of the regular tax rate.

For 2003-2004, the District's debt millage levy was 3.25 mills that generated revenue of \$378,566. An increase of \$6,838 from the prior year.

Special Revenue Funds

The districts special revenue funds provide food service and athletic opportunities to students. During the year the fund balances decreased by \$884. Food service fund revenue increased by \$2,431, primarily from an increase in federal revenue. Food service expenditures increased by approximately \$23,942, primarily from increases in food purchases and salaries and fringe benefits.

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final <u>Budget %</u>	Variance Actual & Final Budget %
Revenue	\$6,632,651	\$6,565,606	\$6,555,969	1.02	(0.15)
Expenditures	6,268,505	6,487,955	6,459,551	(3.38)	0.44
<u>TOTAL</u>	<u>\$364,146</u>	<u>\$77,651</u>	<u>\$96,418</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Ugly Community Schools amends its budget during the school year. The June, 2004 budget amendment was the final budget for the fiscal year. Variations between the original and final budget were due to the fact the student enrollment and state aid amounts were unknown when the original budget was prepared. There were no significant variations between the final budget and the District's actual results.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-1-03	Increases 6-30-04	Principal Payments 6-30-04	Principal Balance 6-30-04
General Obligation Bonds	\$1,748,040	\$0	\$370,000	\$1,378,040

B. Capital Assets

The district's net investment in capital assets decreased by \$11,539 during the fiscal year. This can be summarized as follows:

	BALANCE <u>JULY 1, 2003</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	BALANCE <u>JUNE 30, 2004</u>
Capital Assets	\$4,084,503	\$183,960	\$0	\$4,268,463
Less: Accumulated Depreciation	(2,494,570)	(195,499)	0	(2,690,069)
<u>Net Investment Capital Outlay</u>	<u>\$1,589,933</u>	<u>(\$11,539)</u>	<u>\$0</u>	<u>\$1,578,394</u>

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Uby Community Schools.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$3,045,815
Accounts Receivable	3,012
Due from Other Governmental Units	1,061,004
Accrued Interest Receivable	5,599
Inventory	13,692
Total Current Assets	<u>\$4,129,122</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	4,268,463
Less: Accumulated Depreciation	<u>(2,690,069)</u>
Total Noncurrent Assets	<u>\$1,578,394</u>
<u>TOTAL ASSETS</u>	\$5,707,516
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	138,327
Accrued Expenses	174,859
Salaries Payable	252,492
Current Portion of Long-Term Obligations	410,000
Total Current Liabilities	<u>\$975,678</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>968,040</u>
<u>TOTAL LIABILITIES</u>	\$1,943,718
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	200,354
Restricted for:	
Debt Service	245,631
Unrestricted	3,317,813
<u>TOTAL NET ASSETS</u>	<u>\$3,763,798</u>

See accompanying notes to the basic financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF ACTIVITIES
JUNE 30, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$4,275,302	\$0	\$435,682	(\$3,839,620)
Support Services	1,900,206	22,038	163,751	(1,714,417)
Food Service	326,586	138,776	175,835	(11,975)
Athletics	263,518	88,744	0	(174,774)
Interest on Long-Term Obligations	102,385	0	0	(102,385)
Depreciation - Unallocated	34,098	0	0	(34,098)
<u>TOTALS</u>	<u>\$6,902,095</u>	<u>\$249,558</u>	<u>\$775,268</u>	<u>(\$5,877,269)</u>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes	741,218
State Aid	5,518,086
Grants and Contributions Not Restricted to Specific Programs	18,944
Investment Earnings	24,041
Miscellaneous	17,859
Total General Revenues and Transfers	<u>\$6,320,148</u>
Change in Net Assets	\$442,879

Net Assets - Beginning - As Restated 3,320,919

Net Assets - Ending \$3,763,798

See accompanying notes to the basic financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$2,767,650	\$278,165	\$3,045,815
Accounts Receivable	3,012	0	3,012
Due from Other Governmental Units	1,058,034	2,970	1,061,004
Accrued Interest Receivable	5,599	0	5,599
Inventory	10,228	3,464	13,692
<u>TOTAL ASSETS</u>	<u>\$3,844,523</u>	<u>\$284,599</u>	<u>\$4,129,122</u>
<u>LIABILITIES</u>			
Accounts Payable	\$138,090	\$237	\$138,327
Accrued Expenses	171,642	0	171,642
Salaries Payable	252,492	0	252,492
Total Liabilities	\$562,224	\$237	\$562,461
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	10,228	3,464	13,692
Debt Retirement	0	245,631	245,631
Unreserved:			
Undesignated, Reported In:			
General Fund	3,272,071	0	3,272,071
School Service Funds	0	35,267	35,267
Total Fund Balances	<u>\$3,282,299</u>	<u>\$284,362</u>	<u>\$3,566,661</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$3,844,523</u>	<u>\$284,599</u>	<u>\$4,129,122</u>

See accompanying notes to the basic financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total Governmental Fund Balances:	\$3,566,661
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$4,268,463 and the accumulated depreciation is \$2,690,069	1,578,394
Accrued Interest on Long-Term Debt	(3,217)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Bonds Payable	<u>(1,378,040)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>	<u>\$3,763,798</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General	Other	Total
	Fund	Governmental	Governmental
		Funds	Funds
<u>REVENUES</u>			
Local Sources	\$458,563	\$613,170	\$1,071,733
State Sources	5,780,008	16,329	5,796,337
Federal Sources	178,932	159,506	338,438
Total Revenues	\$6,417,503	\$789,005	\$7,206,508
<u>EXPENDITURES</u>			
Current:			
Instruction	4,240,166	0	4,240,166
Student Services	159,534	0	159,534
Instructional Support	137,567	0	137,567
General Administration	238,552	0	238,552
School Administration	344,475	0	344,475
Business Administration	106,954	0	106,954
Operation & Maintenance of Plant	608,099	0	608,099
Transportation	379,894	0	379,894
Other Support Services	12,218	0	12,218
Food Service	0	560,712	560,712
Debt Service	0	469,168	469,168
Total Expenditures	\$6,227,459	\$1,029,880	\$7,257,339
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$190,044	(\$240,875)	(\$50,831)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from (to) Other Funds	(232,092)	232,092	0
Other Transfers	138,466	0	138,466
Total Other Financing Sources (Uses)	(93,626)	232,092	138,466
Net Change in Fund Balance	\$96,418	(\$8,783)	\$87,635
<u>FUND BALANCE - BEGINNING</u>	3,185,881	293,145	3,479,026
<u>FUND BALANCE - ENDING</u>	\$3,282,299	\$284,362	\$3,566,661

See accompanying notes to the basic financial statements.

UBLY COMMUNITY SCHOOLS - UBLV, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Total net change in fund balances - governmental funds	\$87,635
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(11,539)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	370,000
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Change in accrued interest on long-term liabilities	<u>(3,217)</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>\$442,879</u>
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UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	Trust & Agency
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$75,781</u>
<u>TOTAL ASSETS</u>	<u><u>\$75,781</u></u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$75,781</u>
<u>TOTAL LIABILITIES</u>	<u><u>\$75,781</u></u>

See accompanying notes to the basic financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Uby Community Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$1,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2004, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits - The Board of Education authorized the following financial institutions for the deposit of the District's funds for the year ended June 30, 2004: Independent Bank East and Bay Port State Bank.

The District's deposits are in accordance with statutory authority.

At June 30, 2004, the carrying amount of the School District's deposits was \$3,121,597 and the bank balance was \$3,333,918. \$843,769 of the bank balance was covered by federal depository insurance and \$2,490,149 was uninsured and uncollateralized.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

4) DEPOSITS AND INVESTMENTS (Continued)

Investments - The School District's investments are required to be categorized to give an indication of the level of risk assumed by the District at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent but not in the School District's name.

The District had no investments at June 30, 2004.

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 1,049,120
Federal	11,884
<u>TOTAL</u>	<u>\$ 1,061,004</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2004, the District had \$257 of estimated claims payable in conjunction with the program.

8) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2004.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$1,425,567	\$71,596	\$0	\$1,497,163
Land Improvements	843,999	0	0	843,999
Equipment and Furniture	1,055,593	51,240	0	1,106,833
Vehicles	759,344	61,124	0	820,468
Totals at Historical Cost	\$4,084,503	\$183,960	\$0	\$4,268,463
Less: Accumulated Depreciation				
Buildings and Improvements	(677,750)	(28,289)	0	(706,039)
Land Improvements	(505,078)	(25,566)	0	(530,644)
Equipment and Furniture	(800,164)	(75,067)	0	(875,231)
Vehicles	(511,578)	(66,577)	0	(578,155)
Total Accumulated Depreciation	(\$2,494,570)	(\$195,499)	\$0	(\$2,690,069)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$1,589,933</u>	<u>(\$11,539)</u>	<u>\$0</u>	<u>\$1,578,394</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 35,136
Support Services	96,873
Food Service	6,458
Athletics	22,934
Unallocated	34,098
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 195,499</u>

10) GENERAL LONG-TERM DEBT

A) 1991 Serial Bonds

Ugly Community Schools has issued School Building & Site Bonds dated November 1, 1991, bearing interest at rates varying from 5.7% to 6.00% per annum. These bonds were issued for the purpose of acquiring, constructing and improving major capital facilities. The balance of the bonds as of June 30, 2004 was \$1,130,000.

B) 1997 Energy Conservation Bonds

Ugly Community Schools issued 1997 Energy Conservation Bonds dated May 1, 1997, bearing interest at rates varying from 5.25% to 5.40% per annum. The balance of the bonds as of June 30, 2004 was \$215,000.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

10) GENERAL LONG-TERM DEBT (Continued)

C) Durant Resolution Package Bonds

Uby Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$51,716 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2004 was \$33,040. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

D) Annual Principal Requirements

The annual principal requirements for all debt outstanding as of June 30, 2004 are as follows:

	BONDS		
	PAYABLE	INTEREST	TOTAL
June 30, 2005	\$410,000	\$77,194	\$487,194
June 30, 2006	447,503	55,197	502,700
June 30, 2007	492,622	29,959	522,581
June 30, 2008	2,747	884	3,631
June 30, 2009	2,878	754	3,632
June 30, 2010-2013	22,290	5,744	28,034
<u>TOTAL</u>	<u>\$1,378,040</u>	<u>\$169,732</u>	<u>\$1,547,772</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$98,025.

E) Changes in General Long-Term Debt

	BALANCE			BALANCE	AMOUNT DUE
<u>Governmental Activities:</u>	<u>JULY 1, 2003</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>JUNE 30, 2004</u>	<u>IN ONE YEAR</u>
General Obligation Bonds	\$1,748,040	\$0	\$370,000	\$1,378,040	\$410,000

11) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its fleet insurance, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2004 were \$39,978 and the School District received a dividend refund of \$4,788.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

12) LEASE AGREEMENTS

The School District leases facilities under operating leases expiring in July 1, 2005. Minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year as of June 30, 2004, for each of the following years and in the aggregate are:

June 30, 2005	<u>\$ 20,000</u>
---------------	------------------

Fiscal year 2004 operating lease payments were \$20,000.

13) RESTATEMENT OF GOVERNMENT-WIDE NET ASSETS

For the fiscal year ended June 30, 2004, the School District implemented GASB Statement 34. As a result, capital assets and accumulated depreciation were recorded for the first time. Net assets were restated as of July 1, 2003 for the recording of accumulated depreciation. See July 1, 2003 balances illustrated in Note 9.

14) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004, consisted of the following:

TRANSFERS FROM	
TRANSFERS TO	GENERAL
	FUND
	<u></u>
	Athletics Fund \$151,807
	Debt Retirement <u>80,285</u>
<u>TOTAL</u>	<u><u>\$232,092</u></u>

These transfers were made to subsidized the cost of services for athletics.

15) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPSERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report may be obtained by writing to the MPSERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2003 through September 30, 2003 and 12.99 percent for the period October 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2004, 2003 and 2002 were \$498,647, \$480,991 and \$434,869, respectively.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

15) DEFINED BENEFIT PENSION PLAN (Continued)

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

16) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and worker's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

17) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantor agencies.

REQUIRED
SUPPLEMENTARY
INFORMATION

UBLY COMMUNITY SCHOOLS - UBLV, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
<u>REVENUES</u>				
Local Sources	\$464,650	\$459,273	\$458,563	(\$710)
State Sources	5,804,871	5,780,008	5,780,008	0
Federal Sources	191,897	187,859	178,932	(8,927)
Total Revenues	\$6,461,418	\$6,427,140	\$6,417,503	(\$9,637)
<u>EXPENDITURES</u>				
Current:				
Instruction	4,103,207	4,272,639	4,240,166	32,473
Student Services	145,605	154,178	159,534	(5,356)
Instructional Support	150,467	140,589	137,567	3,022
General Administration	241,349	236,430	238,552	(2,122)
School Administration	351,481	345,395	344,475	920
Business Administration	94,291	108,116	106,954	1,162
Operation & Maintenance of Plant	574,740	605,876	608,099	(2,223)
Transportation	375,795	379,997	379,894	103
Other Support Services	4,940	12,300	12,218	82
Total Expenditures	\$6,041,875	\$6,255,520	\$6,227,459	\$28,061
Excess of Revenues Over Expenditures	\$419,543	\$171,620	\$190,044	\$18,424
<u>OTHER FINANCING SOURCES (USES)</u>				
Net Change in Fund Balance	(55,397)	(93,969)	(93,626)	343
<u>FUND BALANCE - BEGINNING</u>			3,185,881	
<u>FUND BALANCE - ENDING</u>			\$3,282,299	

OTHER SUPPLEMENTAL
INFORMATION

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2004

	School Service Fund	Debt Service Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$32,534	\$245,631	\$278,165
Due from Other Governmental Units	2,970	0	2,970
Inventory	3,464	0	3,464
<u>TOTAL ASSETS</u>	<u>\$38,968</u>	<u>\$245,631</u>	<u>\$284,599</u>
<u>LIABILITIES</u>			
Accounts Payable	\$237	\$0	\$237
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	3,464	0	3,464
Debt Retirement	0	245,631	245,631
Unreserved:			
Undesignated, Reported In:			
School Service Fund	35,267	0	35,267
Total Fund Balances	<u>\$38,731</u>	<u>\$245,631</u>	<u>\$284,362</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$38,968</u>	<u>\$245,631</u>	<u>\$284,599</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	School Service Fund	Debt Service Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$232,186	\$380,984	\$613,170
State Sources	16,329	0	16,329
Federal Sources	159,506	0	159,506
Total Revenues	<u>\$408,021</u>	<u>\$380,984</u>	<u>\$789,005</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>151,807</u>	<u>80,285</u>	<u>232,092</u>
Total Revenues & Other Financing Sources	<u>\$559,828</u>	<u>\$461,269</u>	<u>\$1,021,097</u>
<u>EXPENDITURES</u>			
Food Service	560,712	0	560,712
Debt Service	0	469,168	469,168
Total Expenditures	<u>\$560,712</u>	<u>\$469,168</u>	<u>\$1,029,880</u>
Net Change in Fund Balance	(\$884)	(\$7,899)	(\$8,783)
<u>NET ASSETS - BEGINNING</u>	<u>39,615</u>	<u>253,530</u>	<u>293,145</u>
<u>NET ASSETS - ENDING</u>	<u>\$38,731</u>	<u>\$245,631</u>	<u>\$284,362</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
SCHOOL SERVICE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2004

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$27,130	\$5,404	\$32,534
Due from Other Governmental Units	2,970	0	2,970
Inventory	3,464	0	3,464
<u>TOTAL ASSETS</u>	<u>\$33,564</u>	<u>\$5,404</u>	<u>\$38,968</u>
<u>LIABILITIES</u>			
Accounts Payable	\$237	\$0	\$237
<u>FUND EQUITY</u>			
Reserved for Inventory	3,464	0	3,464
Unreserved and Undesignated	29,863	5,404	35,267
Total Fund Equity	\$33,327	\$5,404	\$38,731
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$33,564</u>	<u>\$5,404</u>	<u>\$38,968</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
SCHOOL SERVICE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$138,776	\$0	\$138,776
Athletic Activities	0	88,744	88,744
Other Local Sources	0	4,666	4,666
Total Local Sources	<u>\$138,776</u>	<u>\$93,410</u>	<u>\$232,186</u>
<u>State Sources</u>			
State Reimbursements	16,329	0	16,329
<u>Federal Sources</u>			
Federal Reimbursements	137,364	0	137,364
Commodities	22,142	0	22,142
Total Federal Sources	<u>\$159,506</u>	<u>\$0</u>	<u>\$159,506</u>
Total Revenues	<u>\$314,611</u>	<u>\$93,410</u>	<u>\$408,021</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	0	151,807	151,807
Total Revenues and Other Financing Sources	<u>\$314,611</u>	<u>\$245,217</u>	<u>\$559,828</u>
<u>EXPENDITURES</u>			
Salaries - Non-Professional	102,762	130,400	233,162
Insurances	27,505	15,236	42,741
Fica, Retirement, Etc.	20,592	22,711	43,303
Other Benefits	2,400	0	2,400
Purchased Services	1,165	6,158	7,323
Supplies and Materials	158,914	53,206	212,120
Capital Outlay	6,432	0	6,432
Other	358	12,873	13,231
Total Expenditures	<u>\$320,128</u>	<u>\$240,584</u>	<u>\$560,712</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>(\$5,517)</u>	<u>\$4,633</u>	<u>(\$884)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$38,844</u>	<u>\$771</u>	<u>\$39,615</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$33,327</u>	<u>\$5,404</u>	<u>\$38,731</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
DEBT RETIREMENT FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2004

	<u>1991</u> <u>DEBT</u>	<u>1997</u> <u>DEBT</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	<u>\$245,468</u>	<u>\$163</u>	<u>\$245,631</u>
<u>TOTAL ASSETS</u>	<u><u>\$245,468</u></u>	<u><u>\$163</u></u>	<u><u>\$245,631</u></u>
<u>FUND EQUITY</u>			
Reserved for Debt Retirement	<u>\$245,468</u>	<u>\$163</u>	<u>\$245,631</u>
<u>TOTAL FUND EQUITY</u>	<u><u>\$245,468</u></u>	<u><u>\$163</u></u>	<u><u>\$245,631</u></u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
DEBT RETIREMENT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

	<u>1991</u> <u>DEBT</u>	<u>1997</u> <u>DEBT</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Property Taxes	\$378,566	\$0	\$378,566
Earnings on Investments and Deposits	2,412	6	2,418
Total Local Sources	<u>\$380,978</u>	<u>\$6</u>	<u>\$380,984</u>
<u>OTHER FINANCING SOURCES</u>			
Transfer from General Fund	<u>0</u>	<u>80,285</u>	<u>80,285</u>
Total Revenues and Other Financing Sources	<u>\$380,978</u>	<u>\$80,291</u>	<u>\$461,269</u>
<u>EXPENDITURES</u>			
Redemption of Bonds	305,000	65,000	370,000
Interest Expense	83,040	14,985	98,025
Agent and Other Fees	843	300	1,143
Total Expenditures	<u>\$388,883</u>	<u>\$80,285</u>	<u>\$469,168</u>
<u>EXCESS REVENUES AND OTHER FINANCING</u> <u>SOURCES OVER (UNDER) EXPENDITURES</u>	<u>(\$7,905)</u>	<u>\$6</u>	<u>(\$7,899)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$253,373</u>	<u>\$157</u>	<u>\$253,530</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$245,468</u>	<u>\$163</u>	<u>\$245,631</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2004

REVENUES FROM
Local Sources

Property Tax Levy	\$362,652
Earnings on Investments and Deposits	21,623
Transportation Fees	1,466
Tuition	10,075
Medicaid	20,113
Other Local Revenues	42,634
Total Revenues from Local Sources	<u>\$458,563</u>

State Sources

State Aid	5,518,086
At Risk	146,099
Special Education	100,320
Durant	5,172
Vocational Education	2,296
Driver Education	8,035
Total Revenues from State Sources	<u>\$5,780,008</u>

Federal Sources

Title I	120,553
Improving Teacher Technology	35,477
Grants from ISD	8,883
Title V	7,098
Technology Literacy	6,921
Total Revenues from Federal Sources	<u>\$178,932</u>
Total Revenues	<u>\$6,417,503</u>

OTHER FINANCING SOURCES

Transfers From Other Districts	<u>138,466</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES

\$6,555,969

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$1,242,097
Salaries - Non-Professional	52,966
Insurances	284,674
Fica, Retirement, Etc.	280,513
Other Benefits	7,200
Purchased Services	16,164
Supplies and Materials	61,697
Capital Outlay	4,997
Total Elementary	<u>\$1,950,308</u>

Junior High

Salaries - Professional	323,738
Salaries - Non-Professional	1,515
Insurances	297
Fica, Retirement, Etc.	66,918
Purchased Services	1,063
Supplies and Materials	5,253
Capital Outlay	52
Total Junior High	<u>\$398,836</u>

High School

Salaries - Professional	775,361
Salaries - Non-Professional	16,093
Insurances	220,916
Fica, Retirement, Etc.	164,373
Other Benefits	6,600
Purchased Services	42,473
Supplies and Materials	47,926
Capital Outlay	18,999
Other	2,233
Total High School	<u>\$1,294,974</u>

Total Basic Programs

\$3,644,118

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION (Continued)

ADDED NEEDS

Special Education

Salaries - Professional	\$199,191
Salaries - Non-Professional	8,753
Insurances	52,119
Fica, Retirement, Etc.	42,897
Purchased Services	427
Supplies and Materials	5,821
Total Special Education	<u>\$309,208</u>

Compensatory Education

Salaries - Professional	169,690
Salaries - Non-Professional	20,042
Insurances	46,385
Fica, Retirement, Etc.	38,890
Purchased Services	8,921
Supplies and Materials	2,912
Total Compensatory Education	<u>\$286,840</u>

Total Added Needs	<u>\$596,048</u>
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<u>Total Instruction</u>	<u>\$4,240,166</u>
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SUPPORT SERVICES

STUDENT SERVICES

Salaries - Professional	50,660
Salaries - Non-Professional	51,190
Insurances	30,367
Fica, Retirement, Etc.	21,057
Purchased Services	421
Supplies and Materials	4,922
Capital Outlay	917
Total Student Services	<u>\$159,534</u>

INSTRUCTIONAL STAFF

Salaries - Professional	60,926
Salaries - Non-Professional	1,934
Insurances	13,195
Fica, Retirement, Etc.	12,974
Purchased Services	648
Supplies and Materials	27,770
Capital Outlay	20,120
Total Instructional Staff	<u>\$137,567</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)GENERAL ADMINISTRATIONBoard of Education

Salaries - Professional	\$3,300
Fica, Retirement, Etc.	1,063
Other Benefits	23,804
Supplies and Materials	2,692
Other	2,262
Total Board of Education	<u>\$33,121</u>

Executive Administration

Salaries - Professional	102,850
Salaries - Non-Professional	25,913
Insurances	15,690
Fica, Retirement, Etc.	29,956
Other Benefits	2,700
Purchased Services	13,686
Supplies and Materials	7,980
Capital Outlay	3,859
Other	2,797
Total Executive Administration	<u>\$205,431</u>

Total General Administration	\$238,552
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SCHOOL ADMINISTRATION

Salaries - Professional	161,000
Salaries - Non-Professional	57,617
Insurances	41,965
Fica, Retirement, Etc.	45,036
Purchased Services	2,710
Supplies and Materials	34,313
Capital Outlay	739
Other	1,095
Total School Administration	<u>\$344,475</u>

BUSINESS OFFICE

Salaries - Professional	38,400
Insurances	15,236
Fica, Retirement, Etc.	10,329
Purchased Services	42,218
Other	771
Total Business Office	<u>\$106,954</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)
OPERATION AND MAINTENANCE OF PLANT

Salaries - Professional	\$44,907
Salaries - Non-Professional	136,420
Insurances	63,242
Fica, Retirement, Etc.	37,238
Purchased Services	105,807
Supplies and Materials	115,859
Capital Outlay	104,626
Total Operation and Maintenance of Plant	<u>\$608,099</u>

TRANSPORTATION

Salaries - Professional	39,618
Salaries - Non-Professional	124,951
Insurances	42,392
Fica, Retirement, Etc.	33,293
Other Benefits	3,960
Purchased Services	13,220
Supplies and Materials	61,337
Capital Outlay	61,123
Total Transportation	<u>\$379,894</u>

OTHER SUPPORT SERVICES

Purchased Services	<u>12,218</u>
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Total Support Services
\$1,987,293
TOTAL EXPENDITURES
\$6,227,459
OTHER FINANCING USES

Transfer to Other Funds	<u>232,092</u>
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TOTAL EXPENDITURES AND OTHER
FINANCING USES
\$6,459,551

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS -
STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2003	RECEIPTS	DISBURSEMENTS	JUNE 30, 2004
Athletic Boosters	\$1,253	\$18,431	\$5,771	\$13,913
Band Fund	0	2,611	2,611	0
Band Boosters	0	34,156	16,769	17,387
Board Fund	0	13,335	12,736	599
Business Club	1,929	5,609	6,339	1,199
Class of 2001	42	0	0	42
Class of 2002	650	0	0	650
Class of 2003	246	0	25	221
Class of 2004	5,111	2,904	4,994	3,021
Class of 2005	713	9,898	5,172	5,439
Class of 2006	683	600	107	1,176
Class of 2007	0	390	100	290
Drama Club	1,592	1,806	1,755	1,643
Driver Education	0	10,075	10,075	0
Elementary Activities	4,804	14,034	14,355	4,483
Elementary March Reading	0	907	915	(8)
Future Farmers	2,407	18,216	18,518	2,105
Future Homemakers	129	6,136	5,978	287
JH Activities	4,273	30,630	29,517	5,386
Lumber/Shop	0	822	822	0
National Honor Society	213	232	326	119
Office Supplies	0	821	821	0
SADD	5	0	0	5
School Book Fund	0	472	472	0
Student Council	3,070	5,261	5,485	2,846
Yearbook Fund	7,182	10,750	2,954	14,978
<u>TOTALS</u>	<u>\$34,302</u>	<u>\$188,096</u>	<u>\$146,617</u>	<u>\$75,781</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2004

1991 SCHOOL BUILDING & SITE BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2004-2005	\$340,000	5.70%	\$32,827	\$32,827	\$405,654
2005-2006	375,000	5.70%	23,137	23,137	421,274
2006-2007	415,000	6.00%	12,450	12,450	439,900
<u>TOTAL</u>	<u>\$1,130,000</u>		<u>\$68,414</u>	<u>\$68,414</u>	<u>\$1,266,828</u>

1997 ENERGY CONSERVATION BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2004-2005	\$70,000	5.350%	\$5,770	\$5,770	\$81,540
2005-2006	70,000	5.350%	3,898	3,897	77,795
2006-2007	75,000	5.400%	2,025	2,025	79,050
<u>TOTAL</u>	<u>\$215,000</u>		<u>\$11,693</u>	<u>\$11,692</u>	<u>\$238,385</u>

1998 DURANT RESOLUTION PACKAGE BONDS

<u>PAYMENT DATE - MAY 15TH</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL FISCAL YEAR REQUIREMENTS</u>
2005	\$0	4.761353%	\$0	\$0
2006	2,503	4.761353%	1,128	3,631
2007	2,622	4.761353%	1,009	3,631
2008	2,747	4.761353%	884	3,631
2009	2,878	4.761353%	754	3,632
2010	3,015	4.761353%	617	3,632
2011	3,159	4.761353%	473	3,632
2012	12,649	4.761353%	4,489	17,138
2013	3,467	4.761353%	165	3,632
<u>TOTAL</u>	<u>\$33,040</u>		<u>\$9,519</u>	<u>\$42,559</u>



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

July 27, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Ubly Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ubly Community Schools, as of and for the year ended June 30, 2004, which collectively comprise the Ubly Community Schools' basic financial statements and have issued our report thereon dated July 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Ubly Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Ubly Community Schools, in a separate letter dated July 27, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ubly Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Ubly Community Schools, in a separate letter dated July 27, 2004.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf P.C.
LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

July 26, 2004

To the Board of Education of
Ubly Community Schools

In planning and performing our audit of the general purpose financial statements of Ubly Community Schools for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Ubly Community Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

The following items of immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budget and Budgetary Accounting

Condition: P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated during the year ended June 30, 2004. Ubly Community Schools incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated.

2. Time Certifications

The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".

The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.



Ubly Community Schools
Page 2
July 26, 2004

This report is intended solely for the information and use of the Board of Education and management and others within the administration of Ubly Community Schools. This restriction is not intended to limit distribution of this report, which, upon acceptance of the Board of Education, is a matter of public record.

Lewis & Knopf P.C.
LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS